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C O N F I D E N T I A L MONTEVIDEO 001017

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SOUTHCOM FOR THE COMBATANT COMMANDER
SOUTHCOM ALSO FOR POLAD
DEPT ALSO FOR S/ES AND WHA A/S TOM SHANNON
NSC FOR DFISK AND GTOMASULO

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SUBJECT: URUGUAY: SCENESETTER FOR COMMANDER, SOUTHCOM

Classified By: Charge d'Affaires, a.i. Peter X. Harding
for reasons 1.4 (B) and (D)

11. (C) Summary and Introduction: The U.S. Mission in Montevideo welcomes you and your delegation's visit to Uruguay. Though led by a left-leaning government, Uruguay shares many of our values and remains an island of democratic stability and good governance in a turbulent region. Your arrival follows a string of high-profile visits this year, including President Bush in March. Those visits highlighted that we favor good relations with sensible, pragmatic governments which respect democracy, human rights, and the rule of law, regardless of political label. Your visit is also an opportunity to advance our improving bilateral relationship beyond trade and to underscore U.S. policy priorities in the region: consolidating democracy, promoting prosperity, investing in people, and enhancing security. Though progress is being made on all these goals, enhancing security poses some special challenges because of Uruguay's unique history, location and culture. We expect your visit will shed more light on the extent and pace that U.S. security cooperation can proceed.

12. (C) Uruguay faces a philosophical quandary between economic dynamism and socialist egalitarianism. Many elements for strong economic growth are in place. The traditional pillars of its economy -- agriculture, tourism and finance -- are all doing well, and foreign investment is increasing. However, four things hold Uruguay back. The first is Uruguay's membership in Mercosur, which now includes Venezuela. Mercosur has increasingly devolved from an imperfect customs union into a more restrictive and anti-American political organization. Second, the current Frente Amplio (FA) government still harbors hard-line Socialists, Communists, and ex-guerrillas. While in the minority, these groups are nevertheless vocal and ardently oppose engagement with the U.S. Third, many ordinary Uruguayans seem content to leave large segments of their economy, including telecoms, power generation, oil imports and several banks, in state hands. Finally, the culture still values professions which are not particularly useful in the global economy. Still, an educated population, strong respect for the rule of law, and good infrastructure make

Uruguay one of the most attractive destinations in the region for foreign investment.

13. (C) Uruguay punches above its weight in foreign affairs, but ideological divisions within the Frente Amplio (FA or "Broad Front") also explain its sometimes ambiguous foreign policy. For example, the anti-American Foreign Minister has been virtually absent from the substantive bilateral trade discussions with the U.S. He has also been a non-player in Uruguay's number one foreign policy concern: the long-running, serious dispute with Argentina over pulp mills.

While the GOU does not agree with the U.S. on many international issues ranging from Kyoto to Cuba to the War in Iraq, both countries value freedom and independence. Uruguay's vibrant democracy highlights the fallacy of populist regimes such as those in Venezuela, Bolivia, Cuba and Ecuador -- and to a lesser extent Argentina. The Economist magazine rated Uruguay as the only country in South America to enjoy "full democracy." The GOU seeks more U.S. trade and investment, but is vulnerable on energy supplies and is very concerned about its dispute with Argentina. Uruguay also faces a long-term demographic problem: a low birth rate (except among the poor) is exacerbated by the brain drain of young people who are emigrating abroad in search of jobs. To the extent that we can, we need to reassure the Uruguayans that we are their friends, increase our cultural exchanges and try to encourage them to cooperate more assertively on issues of regional stability and security -- including counter-terrorism, counter-narcotics and mil-to-mil cooperation. End Summary and Introduction.

Background

14. (U) Uruguay is a small, stable democratic nation of 3.3 million people, almost half of them residing in its capital, Montevideo. It has long been one of Latin America's wealthiest and most egalitarian countries, with per capita GDP exceeding \$6,000 during periods of growth. However, a four-year recession which ended in 2003 cut this figure nearly in half and lowered Uruguay's historically excellent socio-economic indicators. Uruguay's economy has been recovering well over the past three years, with GDP growth of 7 percent in 2006, in large part thanks to continued orthodox economic policies. GDP per capita is back to \$5,700, and the GOU recently repaid its entire IMF debt early.

15. (C) Many Uruguayans were traumatized by the 1973-85 period of military dictatorship, when security forces committed serious human rights violations in the campaign against insurgents and their sympathizers. Some people blame the U.S. for indirectly supporting the region's military governments during the Cold War. Our detractors frequently use slick propaganda and declassified U.S. documents from the period to "prove" our involvement. The complex history of the dictatorship created heroes and villains for both the left and right. Some of the persons involved -- including former Tupamaro guerrillas -- are still active in politics. The real and imagined lessons from the period continue to influence modern politics, including Uruguayans' perceptions of the U.S. (and its armed forces), especially where the Global War on Terrorism, Iraq and Afghanistan are concerned.

Bilateral Relations: Key Issues

16. (C) Expanding the trade relationship has been the foundation of our engagement with the GOU. Recent visits by President Bush, U/S Nicholas Burns, Secretary of Commerce Gutierrez and Treasury Secretary Paulson have focused on deepening trade, investment and commercial ties between the two countries. Aside from trade, we also need to intensify bilateral cooperation in areas such as counter-terrorism, counter-narcotics, mil-to-mil cooperation, container security, bio-fuels, the upgrade of Uruguay's civil aviation authority to Category 1, alternative sources of energy (especially wind, bio-diesel and ethanol), phytosanitary issues, science and technology, English language teaching,

and cultural exchanges.

President Vazquez

¶7. (C) A practicing physician, President Vazquez is a cautious and prudent man who is sometimes shy in international settings. He appears to style himself after Chile's ex-President Ricardo Lagos, and his mild leadership style sharply contrasts with the populism of Venezuela's Hugo Chavez and other radicals in the region. As a pragmatist, his primary focus for Uruguay is jobs, investment and growth.

At home and abroad he has been caught between the competing demands of radicals and moderates, and he often faces a tremendous challenge to balance these opposing forces. His leadership style is predictable - he tends to stay above the fray and allow competing factions in the FA to debate an issue to exhaustion and then weighs in with a final decision. Vazquez' adroit and pragmatic leadership along with Uruguay's strong institutions and the basically conservative nature of its society prevented the radical tilt some observers predicted during the 2004 electoral campaign. Under the Constitution, Vazquez cannot run for second consecutive term.

Domestic Politics

¶8. (C) By December 2007, Vazquez and his coalition Frente Amplio Government will have been in power for almost three years and are starting to show signs of midterm fatigue, with approval ratings for the administration below 50% for the first time. (Note: The FA was founded by a military man, General Liber Seregni, who died in 2004. End note.) In the lead-up to the 2009 presidential elections, there is a sometimes heated debate within the FA to define the party's ideological platform. The moderates in his cabinet, especially Econ Minister Danilo Astori and Energy Minister Jorge Lepra, favor greater trade and investment liberalization and have generally enjoyed high approval and considerable sway in foreign policy and the economy. The radicals within the FA coalition hold on to the core anti-imperialist, anti-American position and have challenged Vazquez to return the party to its ideological roots. At times, Vazquez has a more contentious relationship with the radical wing of the FA than with the two opposition parties (Blancos and Colorados) who ruled the country during the past century. In his efforts to be practical, Vazquez relies on a relatively small cadre of experienced officials to get things done. A key ally in domestic politics has been Agriculture Minister and ex-Tupamaro guerrilla leader Jose Mujica, who, despite his violent past, has often countered the extreme ideologues on the far-left. Vazquez was also able to appease many of the far-left radicals when he addressed the human rights abuses committed during the "dirty war" period of the military dictatorship, uncovered the buried bones of disappeared persons, and prosecuted some of the perceived worst human rights abusers. The cabinet consists of mostly elder party leaders.

Foreign Policy

¶9. (C) The country's foreign relations have historically reflected the efforts of a small nation to advocate self-determination, respect for human rights and the rule of law, the pacific settlement of disputes, and economic cooperation. Uruguay favors engagement with multilateral institutions like the UN and OAS in order to advance its foreign policy objectives and resolve disputes. Its robust participation in international peacekeeping operations can be partly explained by its dedication to and faith in international organizations. However, foreign policy under the Vazquez administration has been a formidable challenge, compounded by the stubbornly ideological, anti-U.S. Foreign Minister Reinaldo Gargano.

¶10. (C) In 2005, the GOU proposed a \$20 million reconstruction and development project for Haiti as an

extension of their involvement in MINUSTAH, requesting funding from the USG, Canada and other sources. The State Department is currently reviewing the feasibility and fundability of the project. Anecdotal reporting indicates that the GOU is interested in supporting the Haitian government, in part, due to its left leaning tendencies.

¶11. (C) By far, the GOU's most serious recent challenge has been its dispute with Argentina over the construction of a Finnish-owned paper mill on a shared river -- not only because of soured bilateral relations with Uruguay's closest neighbor, but also because of the negative implications to foreign investment. At \$1.2 billion, the plant's construction cost represents 8% of Uruguay's GDP and its operation is expected to generate exports worth 2% of Uruguay's GDP. It represents the largest foreign investment in Uruguay's history. Argentine government officials, some inhabitants of the Province of Entre Rios across the river, and environmental activists claim the plant would harm fishing, farming, and tourist areas along the Uruguay-Argentina border. Argentina also claims that Uruguay violated the 1975 Uruguay River Treaty. Aspects of the case have gone before the International Court of Justice in The Hague and a Mercosur Tribunal. While the USG has remained neutral, we did vote to support the World Bank's IFC loan to the project. Protesters from Argentina have blocked bridges between Argentina and Uruguay off and on since December 2005 at great cost to Uruguay's trade and tourism revenues. The Uruguayans have felt bullied by Argentina's treatment and disappointed by Brazil's indifference. President Vazquez authorized Botnia to begin operations during the contentious Ibero-American summit in Santiago in November 2007.

The Economy, Trade and Investment

¶12. (U) Uruguay is a major agricultural producer. Agriculture and agro-industry account for 23 percent of GDP and over 75 percent of total exports. Significant exports include meat (over \$1 billion this year), long-grain rice, dairy products, wool, and soybeans; with forestry products an emerging sector. Economy Minister Astori has pursued orthodox macro-economic policies on controlling inflation (6.4 percent in 2006) and promoted growth and investment. This has resulted in continued strong growth over the past couple of years, at 6.6 percent in 2005 and 7.0 percent in ¶2006. The GOU has also paid off its debt to the IMF early and has regularly issued bonds on favorable terms in the international financial markets. The debt to GDP ratio was down to 71 percent at the end of 2006, from over 101% in 2004.

¶13. (C) Still, Uruguay has a heavy debt burden and no known hydrocarbon deposits, so that Venezuelan oil and money provide considerable temptation to boost the economy. Uruguay's state oil monopoly ANCAP recently signed a deal with Venezuela's state-owned PDVSA to help fund 24 percent of the cost of oil exploration in the Orinoco region of Venezuela in return for a proportional share of the resulting oil. Venezuela has also invested in several failing firms in Uruguay and has promised to do more. So far, except for oil at preferential prices, most of Chavez's promises to Uruguay remain unfulfilled.

Military Overview

¶14. (U) The Uruguayan military of 25,000 men and women can be characterized as a small, professional and proud force. With approximately 60 percent of military members having served in peacekeeping missions outside the country, the military has a professionalism not seen in many nations in Latin America. The Army is the predominant branch with over 17,000 personnel in uniform, most of the military's resources and the only bases outside of Montevideo. The Navy has more influence than its size would dictate, while the Air Force is not as influential at the national level. Many of the officer corps, besides having experience in missions abroad, have had the opportunity to attend military courses in Latin America,

the United States, Europe and more recently the People's Republic of China. Major pol-mil issues in Uruguay include: increasing MOD control and transparency, difficulties associated with reduced resources for the Armed Forces, continuing support for PKO and the ongoing re-defining of the military's role under the current government. (Note: The Foreign Ministry has almost no one versed in pol/mil issues. End Note.)

¶15. (U) Engagement in peacekeeping operations continues to be the primary international role of the Uruguayan Armed Forces.

Per capita, Uruguay is the number one troop contributing country for PKOs globally, with major deployments in support of MINUSTAH in Haiti and in the Congo. With a few exceptions, there is broad political support for Uruguay's PKO engagements. In November 2007, the Uruguayan Congress voted to re-authorize the country's involvement in Haiti through 2008. Uruguay is able to meet its PKO obligations at their current levels, but is unlikely to take on new deployments due to a lack of capacity. The Minister of Defense has on several occasions remarked that Uruguay will not deploy forces to Darfur/Chad. Uruguay's civilian leadership delegates most of the logistical and decision-making responsibilities for PKO to the Uruguayan military, mainly the Army. There have been concerns about PKO financial accountability, as well as organizational communication issues. The UN is several months in arrears on PKO payments to Uruguay, which has been a source of concern to the GOU.

¶16. (U) The military accepts its apolitical role in the new government. After the end of the military dictatorship in 1985, the Armed Forces returned to the barracks and supported democracy and civilian leadership. There are greater tensions between the military and the Frente Amplio government than there were under National and Colorado party leadership, but the military is steadily building a working relationship with the FA despite their ideological differences. The GOU's Armed Forces are independent and pragmatic when it comes to offers for security assistance and bilateral cooperation. The military ensures that its engagements are in sync with the GOU's policy of non-intervention. As ASPA sanctions diminished USG contributions of equipment and training, Uruguay turned to Russia, Europe and Canada for equipment and to Europe, Latin America and the People's Republic of China for military training.

Comment: U.S. National Interests

¶17. (C) Uruguay is being actively courted by both the radical (including Chavez) and moderate left in Latin America. Our goal is to ensure that Uruguay remains within the moderate camp. Expanded security cooperation between the U.S. and Uruguay is a key goal for both the GOU Armed Forces and the USG, but we caution that the uniformed military officers tend to be more eager for cooperation than their civilian counterparts. Though Uruguay is unlikely to become a strategic partner of the U.S., it can be a valuable friend in a region that has sought to distanced itself from us in many instances. Over the last two and a half years, we have been able to build a remarkable level of confidence with President Vazquez through enhanced trade initiatives and other confidence-building measures. We will continue our efforts in this regard, but it will take time. Meanwhile, your visit serves as an important building block for deepening our overall engagement with Uruguay, especially related to security cooperation, one of our key policy objectives. End Comment.

Harding